# Airport Industry Outlook

## Asia-Pacific & Middle East

February 2024

## Introduction

Air traffic recovery has continued positively in the second half of 2023, but global uncertainties and risks continue. This edition provides trends related to the second half of 2023 and a special focus is dedicated to the macroeconomic outlook to better understand what we could expect in 2024.

The Russia-Ukraine conflict has impacted fuel prices and higher inflation in the post-pandemic recovery has been an issue for many markets. More recently, the Israel-Gaza crisis sparked conflict in the Red Sea, leading to a threat to shipping through the Suez canal. This has led to many ships routing around Africa, adding time and expense to their journeys. As the Red Sea is one of the world's major shipping routes, this could push inflation and fuel prices to higher levels, which in turn could impact recovery during early 2024.

## Outlook H2 2023 Key Performance Metrics

### Macroeconomic Factors

Global inflation is expected to fall from a peak of 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024, however this remains above pre-pandemic levels of approximately 3.5%.

Global growth (GDP) is projected to slow from an estimated 3.3% in 2022 to 3.0% in 2023, then 2.9% in 2024. Growth across most of the APAC and ME region is expected to be above the global average for 2023 – Emerging and Developing Asia 5.2%, ASEAN-5 4.2% and Middle East 2.0%.

Jet fuel prices continue to fluctuate significantly largely due to the Russia-Ukraine crisis. US Gulf Coast jet fuel price fell from an average of $149 per barrel in January 2023 to $91 per barrel in May 2023, but bounced back to $126 per barrel in August 2023. It reached another peak of $131 per barrel in September 2023. While prices eased during Q4 (falling to an average of $100 per barrel by December 2023), the Red Sea crisis risks pushing up prices again during early 2024.

### Passenger Traffic Performance*

*Measured in scheduled seat capacity

103%

**Domestic**
**H2 2023 vs H2 2019**

86%

**International**
**H2 2023 vs H2 2019**

Compared with equivalent 2019 levels of seat capacity, Domestic capacity in H2 2023 is now at 103% of 2019 levels (versus 94% in H2 2022).

International capacity improved to 84% of 2019 levels (versus 54% in H2 2022).

### Airport Economic Performance

30%
Q3 2023

**EBITDA Margin**
**30% (profit) in Q3 2023 vs 28% (profit) in Q2 2023**

17%
Q3 2023

**Net Profit Margin**
**17% (profit) in Q3 2023 vs 18% (profit) in Q2 2023**

Traffic growth continued in Q3 2023, and airports in the APAC and ME region continued to operate profitably. Although net profit margins reduced slightly from 18% in Q2 2023 to 17% in Q3 2023, the EBITDA profit margin continues to rise, with 30% recorded in Q3 2023 compared to 28% in Q2 2023.

# Special Topic: Macroeconomic Outlook

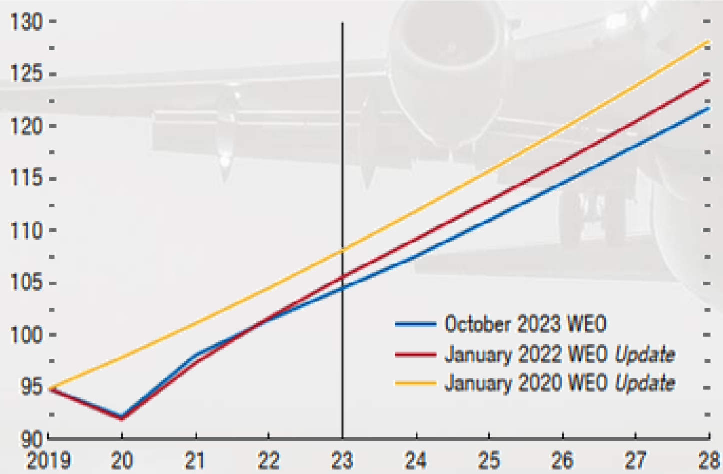
## Headwinds and Resilience

### Uneven Economic Recovery

The global economy has absorbed several shocks since the beginning of 2020 – most notably the global COVID-19 pandemic and the dislocations to workforces and supply chains during the recovery phase. It is also facing the headwinds of geopolitical crises – the Russia-Ukraine conflict and the Israel-Palestinian crisis, which is leading to spreading conflict in neighbouring regions (most notably disruption to Red Sea shipping).

Although the world economy showed resilience in recovering from the pandemic, reaching 110% of 2019 levels in 2023, there is long-term scarring – global GDP is 3.4% or $3.6 trillion below pre-pandemic projections.

**Figure 22: Forecasts of Global GDP**

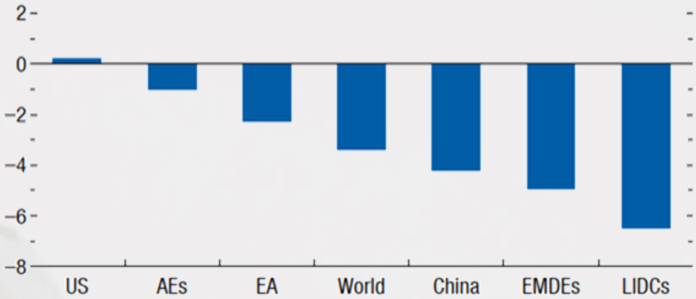



Source: IMF WEO Oct 2023; units USD trillions (2023 prices)

This economic scarring is unevenly spread across countries. As illustrated in Figure 23, the economic impacts have been much greater for poorer countries – while the US is slightly ahead of its pre-pandemic trends and advanced economies are within 1% of previous trends, low-income countries have lost 6.5% of GDP. This unequal distribution of scarring due to the pandemic shock, combined with longer term trends in economic growth drivers, means that the rate that poor country incomes are catching up with advanced economies has fallen from 0.9%pa in 2008 to just 0.5%pa today.

**Figure 23: Real GDP loss 2020-2023**

(percent deviation in 2023 from pre-pandemic projections)



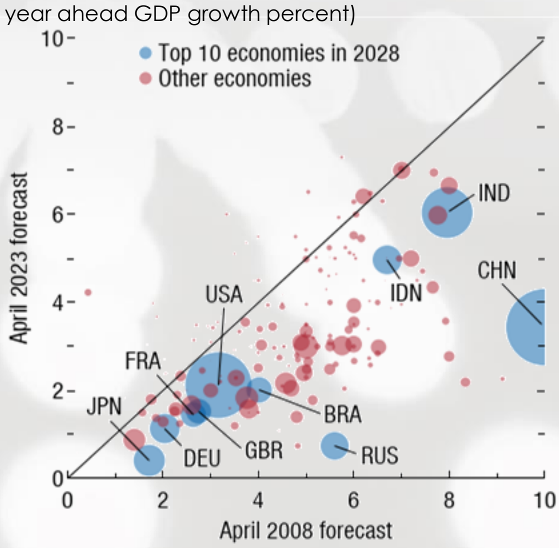

Source: IMF WEO Oct 2023; Aes = advanced economies, EA = Euro area, EMDEs = emerging market and developing economies, LIDCs = low income developing countries

### GDP Growth Trends are Slowing

Almost all economies are experiencing a slowing of GDP growth rates, as illustrated in the chart below. Comparing 5-year-ahead forecasts (2008's forecast of 2013 growth versus 2023's forecast of 2028), growth expectations for China have fallen from 10% to 3.4%, and India from 8% to 6.4%. Advanced economies are seeing a more modest growth deceleration. Overall medium-term growth deceleration was 1.9 percentage points between 2008 and 2023. About 75% of the slowing is due to weaker per capita GDP growth (rather than slowed population growth), mainly a result of slower productivity improvements due to diminishing returns on technology and education improvements.

**Figure 24: Projected Growth Deceleration**

(5 year ahead GDP growth percent)




Source: IMF WEO Oct 2023; Note: compares forecast GDP growth in 2013 made in 2008 versus 2028 growth forecast in 2023

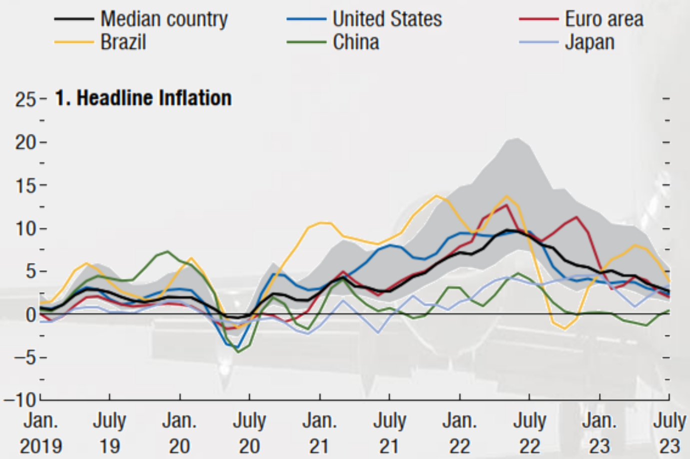
# Special Topic: Macroeconomic Outlook

## Headwinds and Resilience

### Inflation and Interest Rates

A major drag on recovery has been accelerating inflation in many economies due to post pandemic labour market and supply chain disruption, combined with higher energy costs following the Russia-Ukraine conflict. Global inflation rose from 3.5% in 2019 to 8.7% in 2022, but dropped to 6.9% in 2023 and is expected to continue to decline to about 3.8% by 2028.

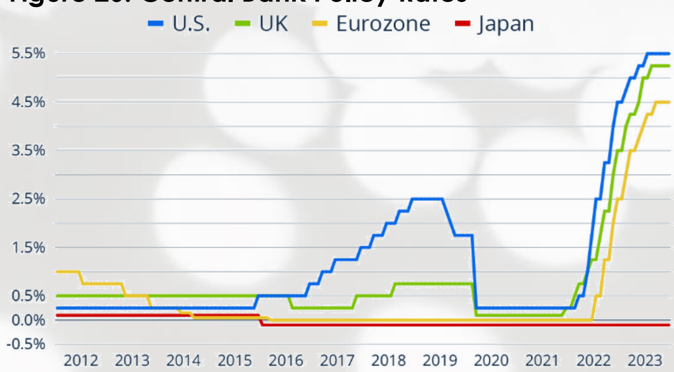
**Figure 25: Inflation Reduction Trends**




Source: IMF WEO Oct 2023;

This surge in inflation has caused central banks in many countries to tighten monetary policy sharply with large increases in interest rates (from near-zero levels during the pandemic). Such sharp rises in the cost of borrowing are dampening consumer spending and business investment.

**Figure 26: Central Bank Policy Rates**

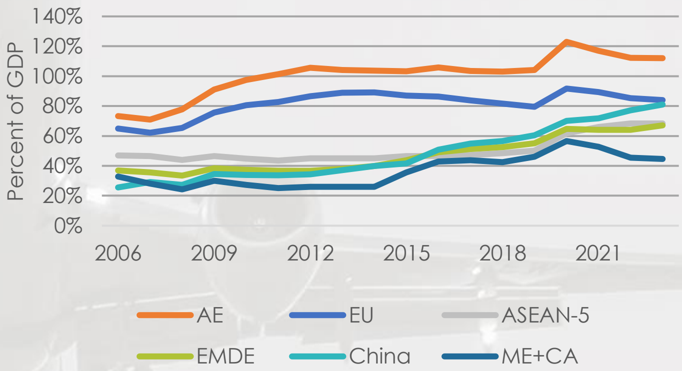



Source: Statista

### Debt Burden

A key challenge, particularly in a world of higher interest rates, is the debt burden – both public and private sector. The level of government debt increased significantly during the global financial crisis of 2008/09 and sharply again during the COVID-19 pandemic, particularly in advanced economies. Average debt in advanced economies was 112% of GDP in 2023. China's government debt has increased steadily from 25% of GDP in 2006 to around 80% today.

**Figure 27: Government Debt (gross)**

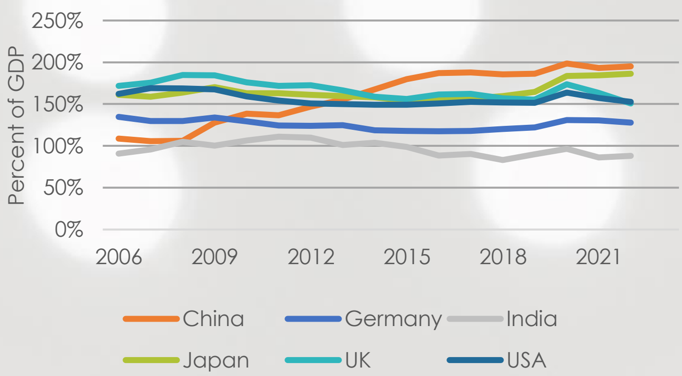



Source: IMF WEO Oct 2023; AE = advanced economies, EU = European Union, EMDE = emerging market and developing economies, EDA = emerging and developing Asia, ME+CA = Middle East and Central Asia

Private sector debt levels are even higher than levels of government debt in many countries but, except for China, have not increased significantly in recent years. None-the-less, the costs for households and businesses to service this debt will rise with higher interest rates, putting pressure on disposable incomes and business investment capacity.

The high level of Chinese indebtedness is coincident with a property market crash which has the potential to lead to a financial crisis with broader impacts on the global economy.

**Figure 27: Private Debt Levels**



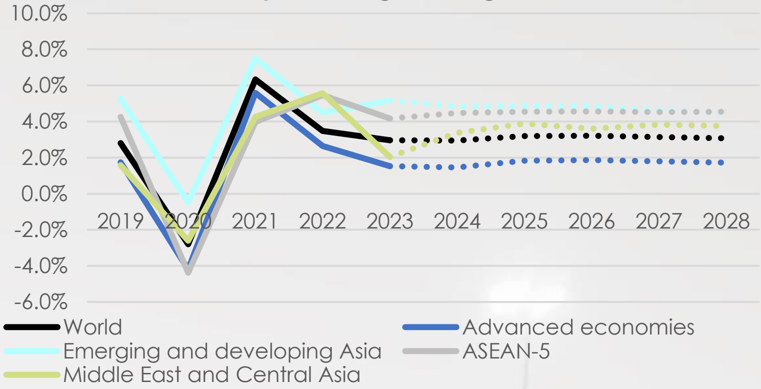

Source: IMF Global Debt Database

# Traffic Factors

## Economic Drivers and Outlook

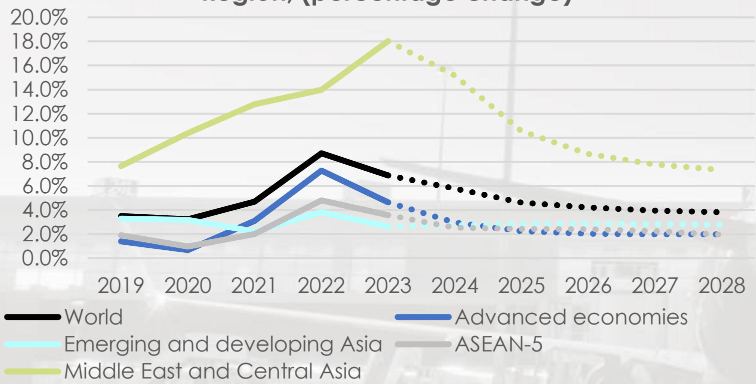
### Economic Drivers and Factors

**Figure 1: Gross Domestic Product by Region, percentage change**




Source: IMF, World Economic Outlook, October 2023

**Figure 2: Consumer Price Inflation (CPI) by Region, (percentage change)**




Source: IMF, World Economic Outlook, October 2023

**Figure 3: U.S. Gulf Coast Kerosene-Type Jet Fuel Spot Price FOB (US Dollars per Barrel)**


Source: Energy Information Administration, accessed November 2023

Global growth (GDP) is projected to slow from an estimated 3.3% in 2022 to 3.0% in 2023, before reducing to 2.9% in 2024. Growth across most of the APAC and ME region is expected to be above the global average for 2023 – Emerging and Developing Asia is expected to be 5.2%, India is expected to be 6.4%, ASEAN-5 is expected to be 4.2% and the Middle East is expected to be 2.0%.

Global inflation is expected to fall from a peak of 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024 but is expected to remain above pre-pandemic levels (inflation of 3.5% was seen in 2019). The majority of Asia is expected to experience lower inflation than the global average, while the Middle East is expected to experience significantly higher inflation.

Jet fuel price fluctuated during H2 2023 but remained higher than before the Russia-Ukraine crisis, and the Red Sea Crisis could increase prices further during early 2024.

**Advanced Economies:** Andorra, Australia, Austria, Belgium, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Macao SAR, Malta, Netherlands, New Zealand, Norway, Portugal, Puerto Rico, San Marino, Singapore, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Taiwan Province of China, United Kingdom, and United States. **Emerging and Developing Asia**: Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Fiji, India, Indonesia, Kiribati, Lao P.D.R., Malaysia, Maldives, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Nepal, Palau, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, and Vietnam. **ASEAN-5:** Indonesia, Malaysia, Philippians, Thailand, Vietnam. **Middle East & Central Asia**: Afghanistan, Algeria, Armenia, Azerbaijan, Bahrain, Djibouti, Egypt, Georgia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, Kyrgyz Republic, Lebanon, Libya, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tajikistan, Tunisia, Turkmenistan, United Arab Emirates, Uzbekistan, West Bank and Gaza, and Yemen.

### Air Fare Trends

The chart below tracks average airline yields (US cents per RPK) from the start of 2019 to end 2023. In 2019, in APAC-ME yields were close to the global average, but diverged sharply during the pandemic, peaking at 16¢/RPK – double 2019 levels. The “Rest of the World” average yields did not increase until April 2022, with the increased fuel prices driven by the Russia-Ukraine conflict. By Dec 2023, APAC-ME yields decreased back to global levels, but average yields are still 20% higher at the end of 2023 than in 2019.

**Figure 4: Airline Average Yields**

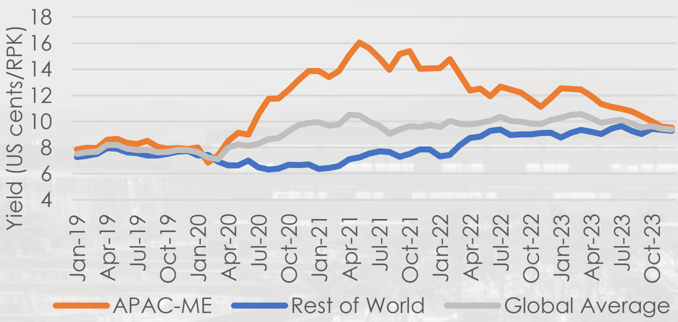
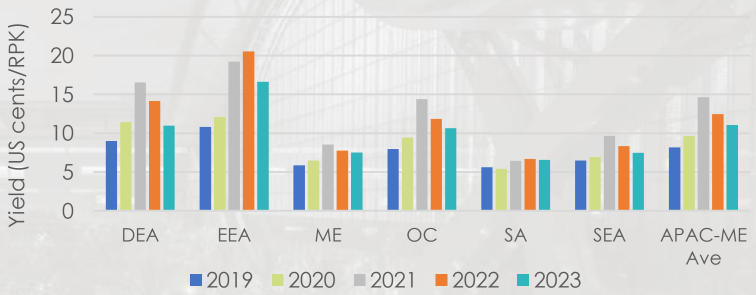



**Figure 5: Airline Yields by Sub-Region**




Source: MIDT air fares data; nominal prices

# Traffic Development

## Schedule Development by Sub-Region

### Subregions

**Middle East (ME)**
Bahrain, Kuwait, Oman, Saudi Arabia, UAE, Iraq, Iran, Jordan, Yemen, Qatar

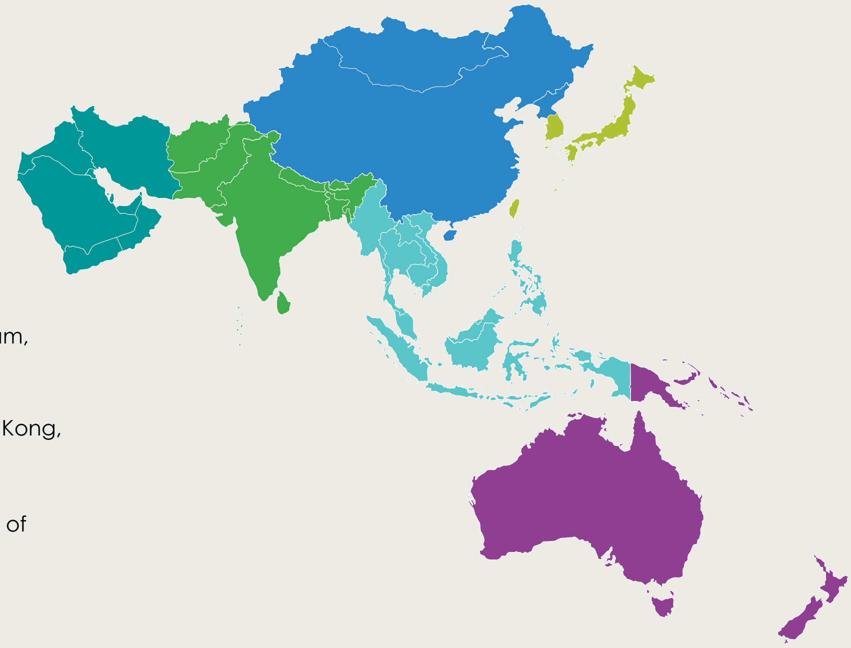
**South Asia (SA)**
Bangladesh, Bhutan, India, Nepal, Pakistan, Sri Lanka, Maldives, Afghanistan

**Southeast Asia (SEA)**
Brunei, Cambodia, East Timor, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand, Vietnam, Singapore

**Developed East Asia (Dev EA)**
Japan, Republic of Korea, Chinese Taipei, Hong Kong, Macau

**Emerging East Asia (Em EA)**
China, Mongolia, Democratic People's Republic of Korea

**Oceania (ANZ and Oceania)**
Australia, New Zealand, Fiji, Papua New Guinea, Solomon Islands, Vanuatu, Kiribati, Marshall Islands, Nauru, Palau, Samoa, Tonga, Tuvalu

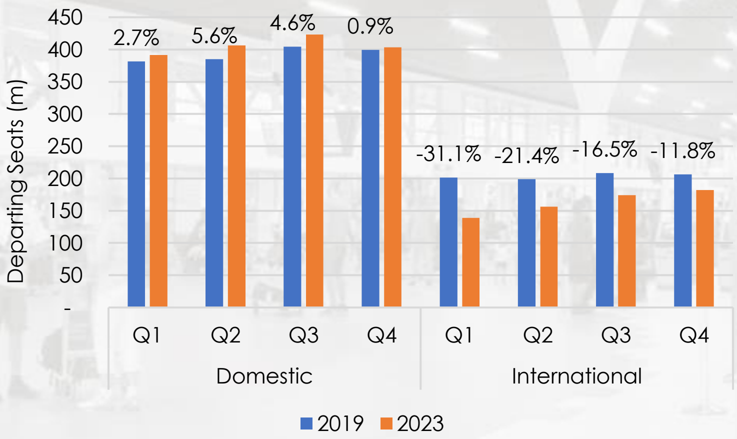


## Schedule Developments

### Scheduled Seats – H2 2023 vs H2 2019

- Overall, seat capacity across the APAC and ME region recovered to 97% of 2019 levels in H2 2023, with the domestic segment driving the growth.
- Domestic seat capacity increased by 3% compared to H2 2019, while international is still down -14% versus H2 2019.
- Although domestic seat capacity exceeded 2019 levels during H2, growth moderated during Q4. While international capacity is yet to return to pre-pandemic levels, a reducing variance to the equivalent 2019 quarters has been seen throughout the year.

**Figure 6: APAC & ME Scheduled Seats**

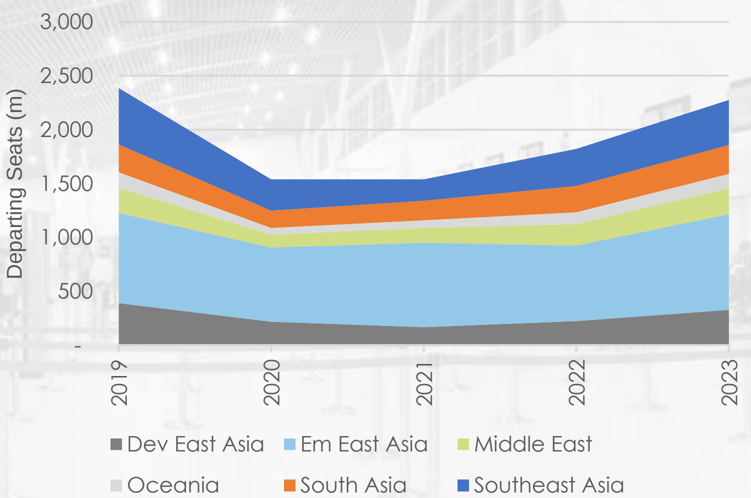



Source: SRS Schedules Analyser, accessed November 2023

### Traffic Trend - Seats 2019-2023

- 2023 seat capacity across the sub-regions remains -5% below seat capacity in 2019.
- Emerging East Asia, South Asia, and the Middle East are expected to exceed 2019 levels (6%, 4% and 3% respectively). This is consistent with recent trends and is driven by the large domestic markets in both China and India. The Middle East continues to benefit from growth by the Gulf carriers, while growth remains slower in other sub-regions.

**Figure 7: Departing Total Seats by Sub Region (millions) 2019-2023**




Source: SRS Schedules Analyser, accessed November 2023

# Traffic Development

## Seats, Load Factors, Passengers

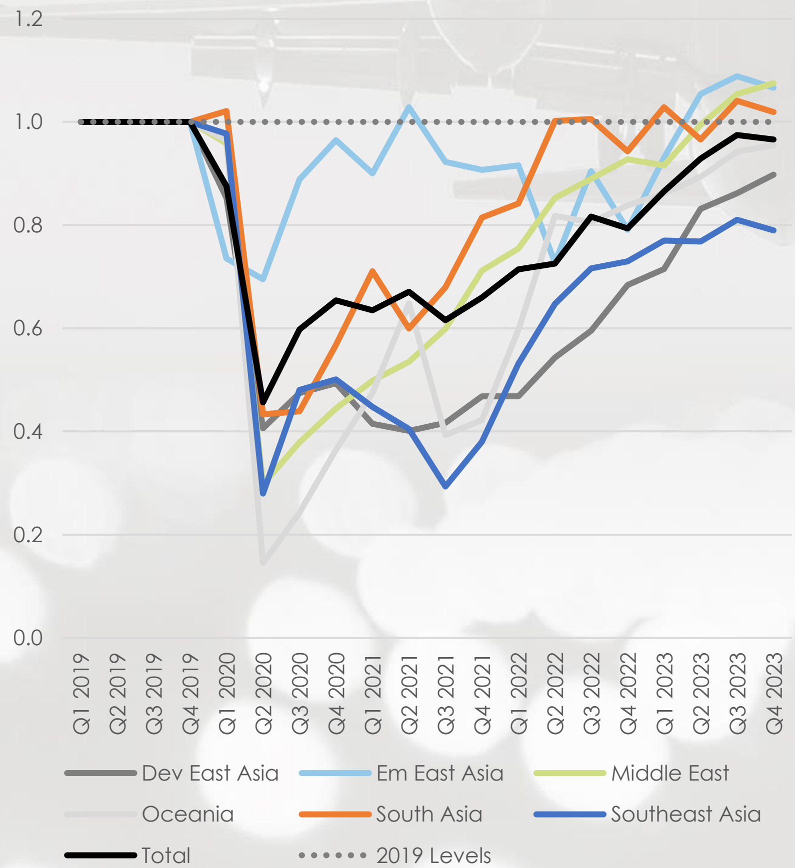
### Traffic Trend – Seats

- During 2023, scheduled seat capacity increased for the sub-regions, with growth moderating towards the end of the year. For the full year, seat capacity across the regions was at 95% of pre-pandemic (2019) levels).
- Emerging East Asia recorded the highest growth in H2 2023, at 8% above H2 2019 levels, while the Middle East saw seat capacity at 6% above H2 2019.
- In contrast, Southeast Asia remained significantly below 2019 levels throughout 2023, with H2 being 20% below 2019 levels.
- Developed East Asia grew significantly across 2023, increasing from 70% of 2019 levels in H1 2023 to 88% in H2.

### Traffic Trend – Load Factors

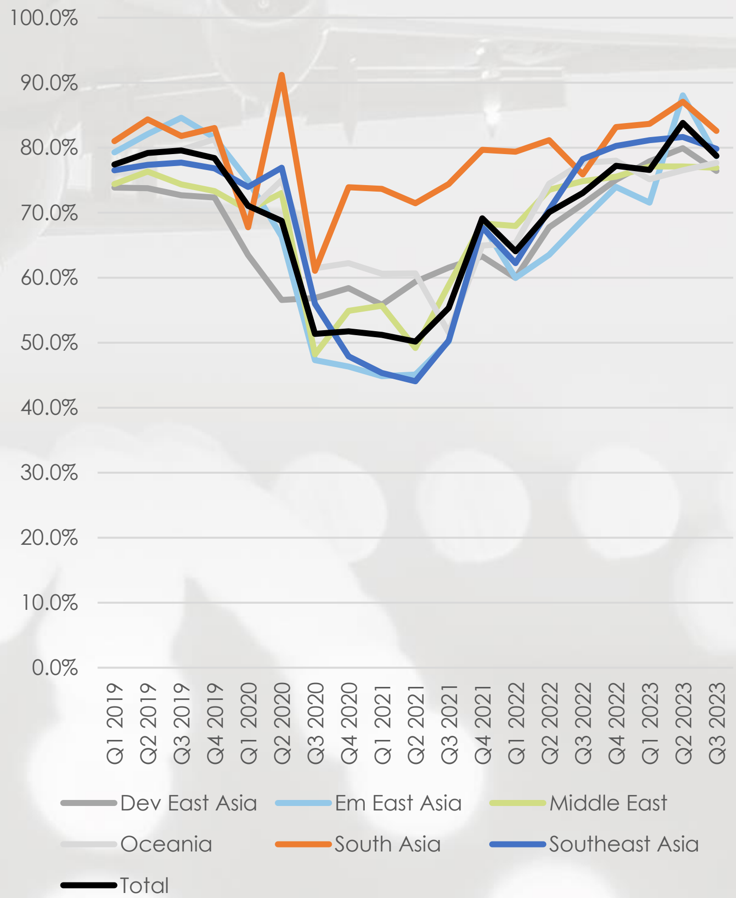
- Load factors, for domestic and international travel combined across the region remain marginally below pre-pandemic 2019 levels in Q3 2023 (-1%). Overall average load factors in Q3 2023 were 78.7%, compared with 79.5% in Q3 2019. However, recovery exceeded pre-pandemic (Q3 2019) levels in four sub-regions (Developing East Asia, Middle East, South Asia, and Southeast Asia).
- Emerging East Asia has the lowest load factor recovery (still 6 points lower in Q3 2023 at 79% compared with 85% in Q3 2019) as demand catches up with strong capacity growth.
- The other sub-region that has not seen a full recovery to pre-pandemic (Q3 2019) load factors is Oceania, however the Q3 2023 load factor of 77.6% is only slightly below the 79.7% recorded in Q3 2019.

**Figure 8: Total Seats by Sub Region**
(Indexed 2019=1.0)




Source: SRS Schedules Analyser, accessed November 2023

**Figure 9: Average Load Factors by Sub Region**



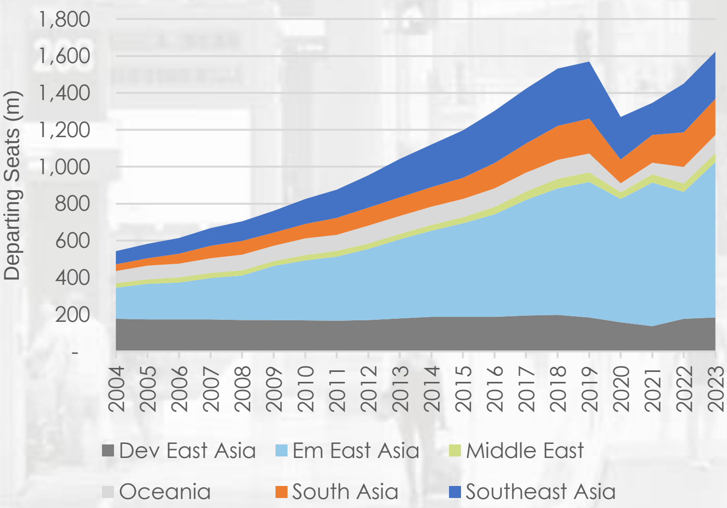

Source: Emergo Sabre Community Portal, accessed November 2023

# Traffic Development

## Domestic and International Seats

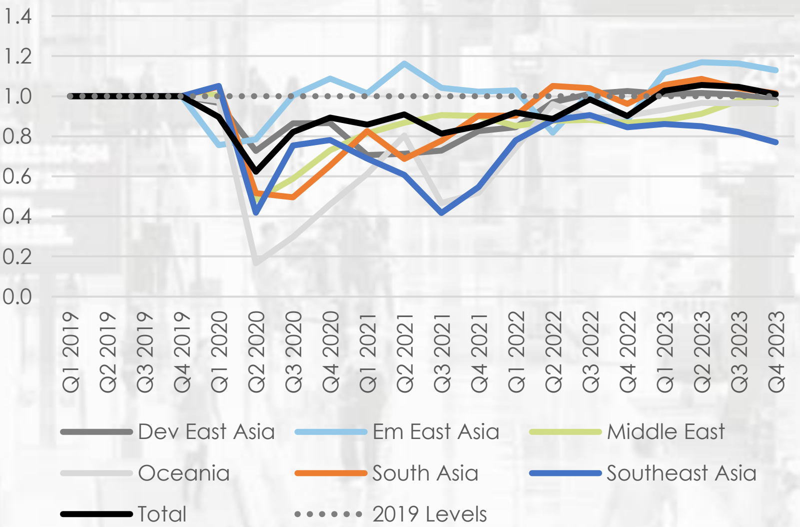
- Total domestic seat capacity across the sub-regions in 2023 is expected to be 3% above 2019 levels.
- The strongest domestic recovery continues to be seen in Emerging East Asia, with seat capacity 15% above 2019 levels. This recovery is driven by China's domestic market (15% above 2019 levels) which represents over 99% of the capacity in the sub-region. South Asia is also expected to exceed 2019 levels with a 5% increase due to the strong recovery in India, which, like China, has a significant domestic market. Developed East Asia is expected to reach approximately the same level seen in 2019 (+0.2%)
- Recovery of domestic seat capacity in Southeast Asia is at -18% below 2019 in 2023, lower than 2022 levels. Indonesia's domestic market is the largest segment of the region's domestic seat capacity (40% in 2023) but has only recovered to 75% of 2019 levels in 2023.
- International recovery remains slower than domestic; international seat capacity across the regions is expected to be -20% below 2019 seat capacity. However, this represents significant improvement versus 2022 (which was -55% below 2019 seat capacity).
- Two regions, the Middle East and South Asia, have international scheduled capacities greater than 2019 in 2023 (6% and 1% respectively). All other regions are expected to remain below 2019 international capacity, although capacity has significantly grown compared to 2022 levels.
- International recovery in Emerging East Asia is 52% below 2019 capacity, however this represents an 417% increase in international seat capacity compared to 2022. This is driven by the easing of travel restrictions by China during January 2023.

**Figure 10: Domestic Seats by Sub Region 2004-2023**



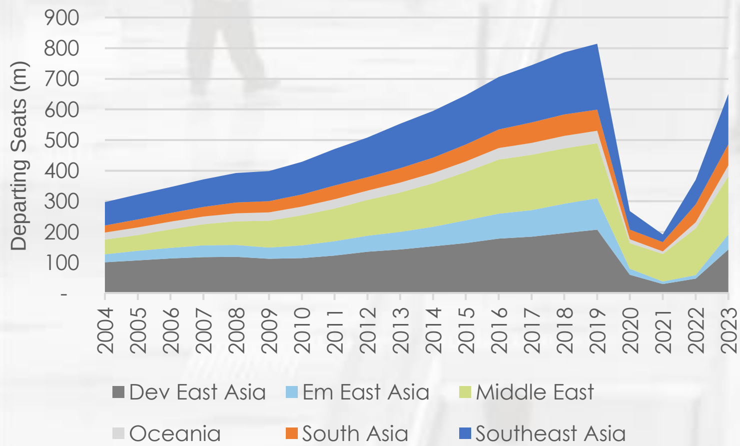

Source: SRS Schedules Analyser, accessed November 2023

**Figure 11: Domestic Seats by Sub Region**
(Indexed 2019=1.0)



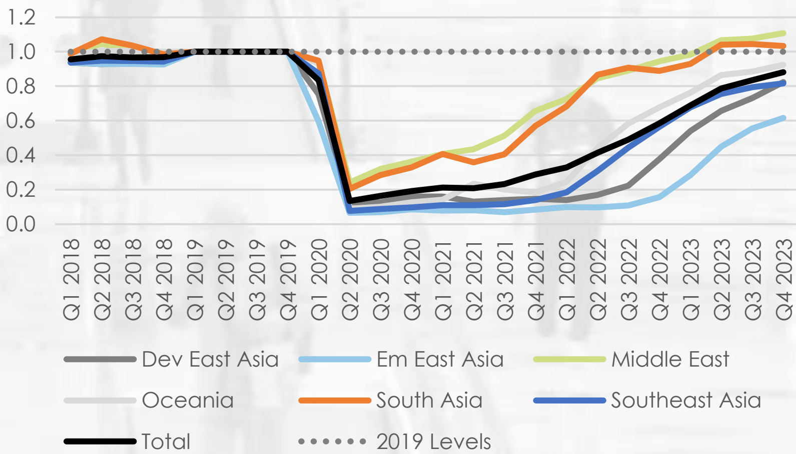

Source: SRS Schedules Analyser, November 2023

**Figure 12: International Seats by Sub Region 2004-2023**




Source: SRS Schedules Analyser, accessed November 2023

**Figure 13: International Seats by Sub Region**
(Indexed 2019=1.0)




Source: SRS Schedules Analyser, accessed November 2023

# Traffic Development

## Air Cargo

### Traffic Developments

**Cargo load factors (CLFs) remained at 43% in Q3 2023, which is similar to pre-pandemic values of 46% in 2019 (full year), but below the Q1 2021 peak of 58%.**

Asia-Pacific CLFs, have increased above the global average, improving from 44% in Q2 2023 to 46% in Q3 2023, but down from an average of 66% in 2021 (full year). Middle East CLFs are marginally below the world average, dropping from 43% in Q2 2023 to 41% in Q3 2023.

**Figure 14: Monthly Cargo Load Factors - Total Market**

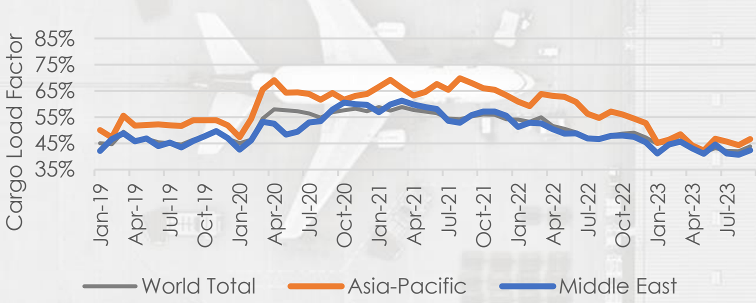
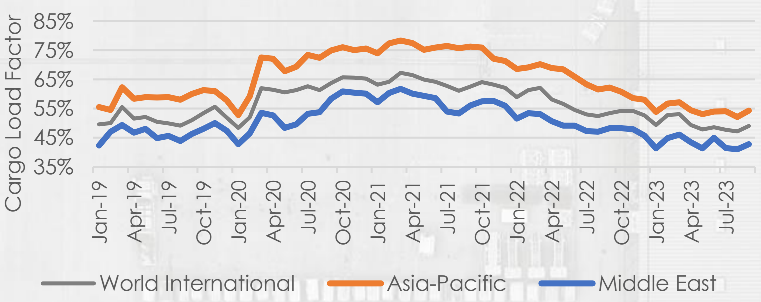



**Figure 15: Monthly Cargo Load Factors - International**




Sources: IATA Economics, IATA Monthly Statistics

Global international CLFs decreased to 48% in Q3 2023, still 15 points lower than the 63% CLF recorded in Q3 2021 and is slightly lower than the average of 52% recorded in 2019, pre-pandemic. The international CLFs of the Asia-Pacific region also stabilised and reached 54% in Q3 2023. The Middle East international CLFs, however, continued to decline and remained lower than the global average, at 42% in Q3 2023, down from an average of 59% in Q2 2021.

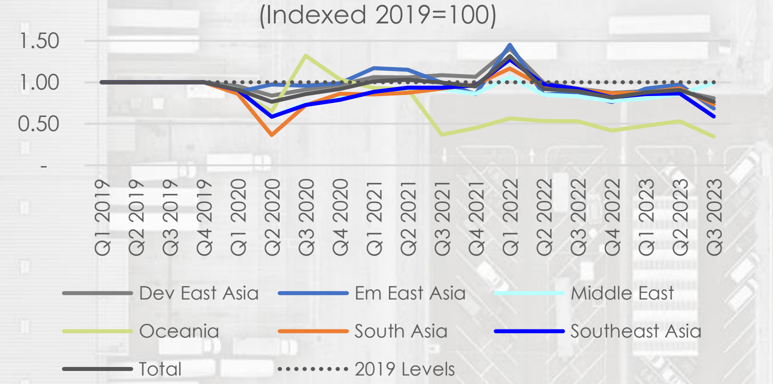
The increasing utilisation of passenger aircraft belly-hold capacity could be the major cause of the decline of CLFs, as passenger travel recovers post-pandemic. The CLFs across all regions is also affected by the global economic downturn with lower cargo transportation demand.

**Despite strong recovery of Asia-Pacific and Middle East cargo tonnage in the first of half 2023, the tonnage decreased by 16% in Q3 2023 compared to Q2 2023. Air cargo is often seen as a leading indicator of the general economy, so the drop relative to Q3 2022 is indicative of weakened global economic growth.**

Against a background of still relatively high inflation levels, the Red Sea Crisis may create further pressure in early 2024 but also increase opportunities for some airports in the Region due to the partial shift from sea shipping to air cargo which is driving up price to transport by air. The total cargo tonnage across the Asia-Pacific and Middle East decreased by -14% versus Q3 2022 and -16% versus Q2 2023. All sub-regions except the Middle East recorded a decline in tonnage. Oceania recorded the most severe drop in tonnage (-34% versus Q2 2023). In contrast, Developing East Asia declined by -9% versus Q2 2023. The Middle East has very strong air cargo, out-performing all other sub-regions with a 16% increase in cargo tonnage versus Q2 2023.

**Figure 16: Total Air Cargo Tonnes by Subregion**

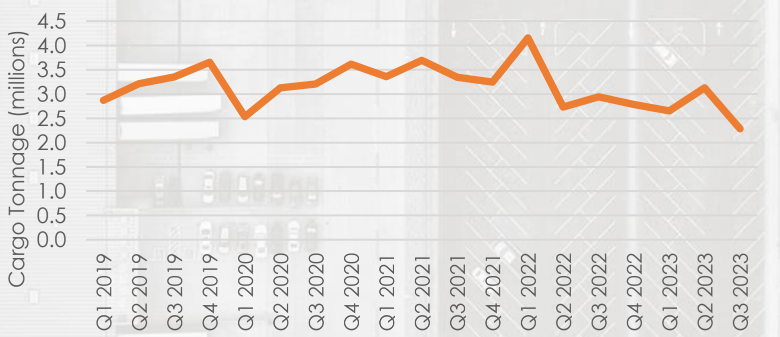
(Indexed 2019=100)




Source: ACI Monthly Traffic Data

Cargo tonnage in China has tracked below 2019 levels since Q2 2022. The cargo tonnage in China fell to the lowest level since Q1 2019 and is lower than any quarters since the outbreak of the pandemic. The tonnage in Q3 was 68% of the volume recorded in Q3 2019, compared to Q2 2023 being at 97% of Q2 2019 values. This is likely driven by economic challenges currently being experienced in China such as a manufacturing downturn and weak prices.

**Figure 17: Total Cargo Tonnage in Mainland China**




Source: ACI Monthly Traffic Data

# Airport Economic Performance

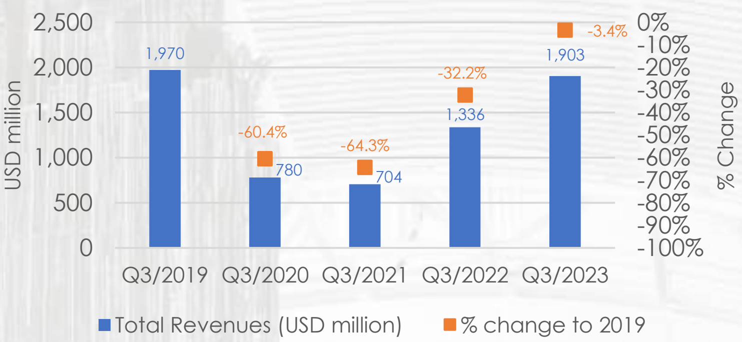
### Airport Economic Performance Sources

These data are based on sample of listed airports that release quarterly financial statements. The sample represents approximately 30% of total annual regional traffic volume in 2019 (refer to footnote for list of included airports).

## Airport Revenues and Expenditures

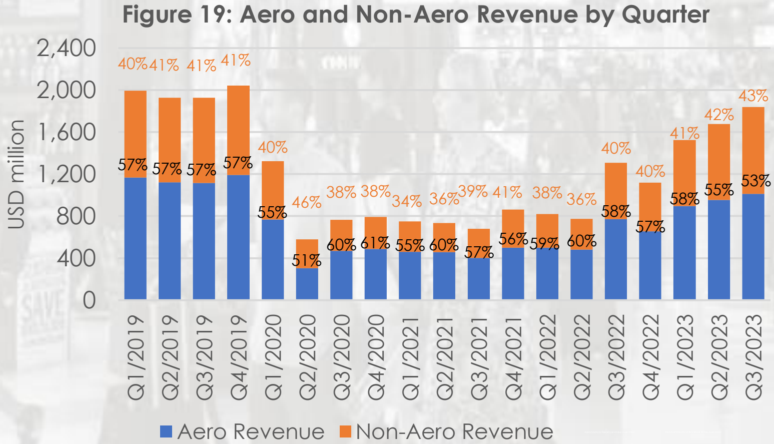
Airport economic performance has remained strong since the start of 2023, with the total airport revenue increasing by 10% from Q2 2023 to Q3 2023. Revenue is almost 3 times that in Q3 2021 when the pandemic was affecting the industry and demonstrates a strong bounce back. From Q3 2022 to Q3 2023, the total airport revenue improved by 42%. This is now just 3% below Q3 2019 and is the best performing quarter since the outbreak of the pandemic. It shows a potential for a fully recovered airport performance which are likely to see pre-pandemic levels once again soon.

**Figure 18: Total Airport Revenue Comparison by Current Quarter**



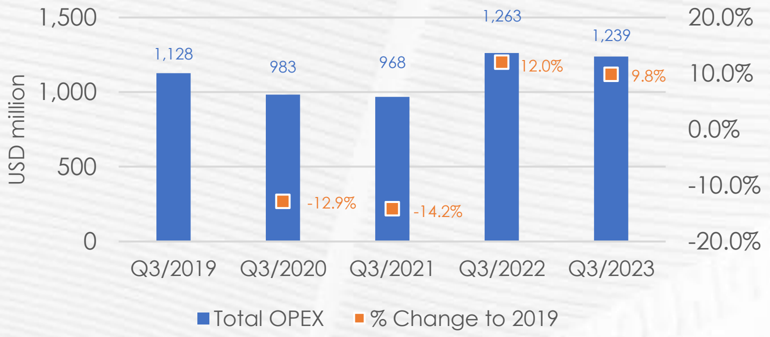

Aeronautical revenue accounted for 53% of the total revenue in Q3 2023, the lowest since 2019 except for Q2 2020. This is likely due to much airport revenue being generated from other services, such as food and beverages, and from duty free shops. The total revenue has grown to the highest level since pre-pandemic.

**Figure 19: Aero and Non-Aero Revenue by Quarter**



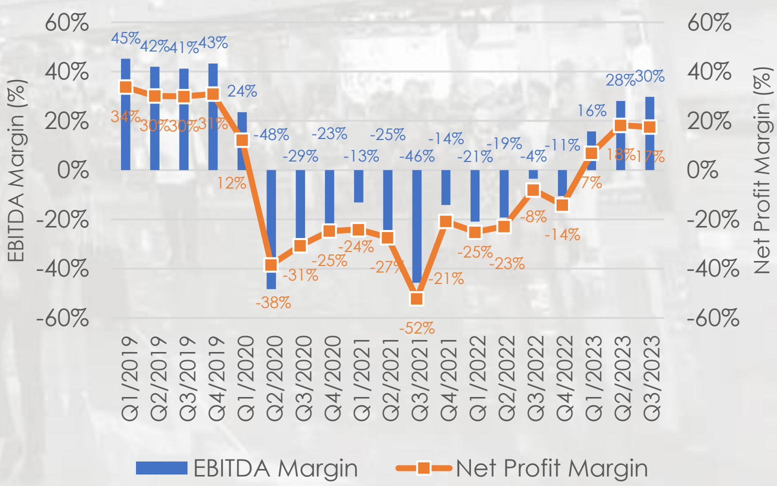

Total operating expenses in Q3 2023 increased for the first time since Q3 2022 and were 12% higher than Q2 2023. This is 10% higher than the total operating expenses in Q3 2019, but 2% lower than that in Q3 2022. The increase in labour and energy costs as traffic recovers are likely contributing factors.

**Figure 20: Operating Expenditure Comparison by Current Quarter**




The EBITDA margins for Q3 2023 increased to 30% from 28% in Q2 2023. The Net Profit Margins, however, saw a slight drop from 18% in Q2 2023 to 17% in Q3 2023. This shows that the airports can sustain economic growth and continue to make profits. Although the EBITDA and Net Profit Margins are still 11% and 13% below Q3 2019 figures in absolute terms, the figures have already surpassed Q1 2020 figures when the outbreak of COVID-19 started.

**Figure 21: EBITDA and Net Profit Margins**




List of sampled airport operators:

- Airports Corporation of Vietnam (ACV)
- Airports of Thailand Public Company Limited (AOT)
- Malaysia Airports Holdings Berhad (MAHB)
- GMR Airports Limited
- Shanghai Airport Authority (SAA) #
- Guangzhou Baiyun International Airport Co. Ltd.
- Shenzhen Airport Company Ltd.
- Xiamen International Airport Group Co., Ltd.

#Data starting from Q3 refers to the consolidated statement that includes subsidiaries Hongqiao Int'l Airport and Shanghai Airport Logistic Co.

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